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Central Intelligence Agency



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## DIRECTORATE OF INTELLIGENCE

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Is China Implementing Textile Retaliation Threats? [REDACTED]

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*Some US firms are experiencing reductions in sales to China since the failure of the fourth round of textile negotiations in January. We believe the Chinese may be trying subtly to encourage the United States to grant more favorable textile trade terms. We expect overall trade with China to increase this year, but US firms involved in textile counter-trade could be hurt by reduced fiber sales and strict quotas.*

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Several US firms report declining business with China since 19 January, when Beijing announced it would stop new purchases of US synthetic fibers, cotton and soybeans because of the failure of bilateral textile trade talks. Although trade officials in Beijing say that only those three products are officially affected, in mid-February [REDACTED]

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[REDACTED] there has been a shift away from imports of other US products such as machinery and equipment and chemicals. Each firm has lost or expects to lose business with China, but one representative indicated that his firm's order may only be diverted to a Canadian subsidiary.

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US businesses with counter-trade contracts with the Chinese--perhaps two dozen firms--are likely to be most affected by the textile impasse. Under these contracts, the US firms supply equipment and assistance to PRC textile mills in return for products. With relatively strict quotas on US imports of

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Chinese-origin textile goods, these firms now must sell their products in the less-lucrative international market.

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We believe these moves by the Chinese are intended to nudge the United States into offering China more favorable textile trade terms. In many of the product categories experiencing sales declines, China already has surplus inventories or can obtain better quality or prices elsewhere. Most textile machinery, for example, originates in Italy and Switzerland.

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Although we do not doubt that the textile issue has affected potential purchases of some products, we believe the impact to date has been overstated by US firms. Some Chinese buyers probably have shied away from US-made goods in over-reaction to Beijing's orders, while others may have used those orders brazenly to elicit better terms from suppliers. American businessmen who have lost orders for sound business reasons may also blame the textile issue for reduced sales, especially if the spectre of a complete cut-off in Chinese purchases is raised during sales negotiations.

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